

Economic & Commercial Report for the week ending 4th of May 2018

1. Analysis of Trade Data (Peru)

Macroeconomic projections for 2018

At the end of March, the Central Reserve Bank of Peru (BCRP) updated its macroeconomic projections for 2018. Regarding the performance of economic activity, the BCRP adjusted its growth estimate downwards, from 4% to 3.7%, bringing the 2013-2018 annual average to 3.6%, above the regional average (1.9%).

INFLATION

Regarding year-on-year inflation, it is expected that it will temporarily fall below 2% during the first half of 2018, as a result of the reversal of supply shocks associated with the weather events that occurred in 2017 and a negative product gap. This trend would be occurring, since inflation in March was 0.49%, with which its interannual rate, for the moment, went from 1.18% in February to 0.36% in March 2018. It is worth mentioning that the year-on-year inflation rate is projected to return to the target range in the second quarter and gradually converges to 2% by the end of the year.

EXPANSION OF THE FISCAL DEFICIT

In 2018, the projection of an expansion of the fiscal deficit to 3.5% of GDP would be maintained, due to higher expenditures with emphasis on public investment, which represent 20.3% of GDP, 0.3 percentage points higher than what was registered in 2017. This estimate is basically due to the increase in gross capital formation, which would reach 4.3% of the product, to carry out the works of the Integral Plan for Reconstruction with Changes and the Pan American Games. Likewise, investment in water and sanitation works is planned, as well as in large projects, such as the Puerto Bermudez-San Alejandro highway and the second phase of the Majes Siguanas project.

PRIVATE INVESTMENT

According to the BCRP, in the case of private investment, the indicators show that this would increase, but at a lower rate than projected in the inflation report of December 2017 (6.5%), with a rate of 5.5% in 2018, as a consequence of a significant boost to mining investment, which is expected to grow by 16.5%, since the better prices of metals will allow mining companies to improve their financial results and expand their capital expenditures.

Regarding the infrastructure sector, it is expected that in 2018 the expansion works of the Jorge Chávez International Airport will begin, with an investment of US \$ 1,500 billion over a period of five years. For its part, the Line 2 project of the Lima Metro registered a 20.2% advance. Also, there are important projects to be awarded in 2018, such as the port terminals of Marcona (investment of US \$ 582 million) and Salaverry (US \$ 216 million).

Although the projections presented are not negative for the economy, the slowdown is reflected in the figures. Likewise, a balance of risks should be taken into account in the 2018 horizon, since, as mentioned by the International Monetary Fund, any projection is subject to the realization of possible unanticipated events that may cause deviations from the central scenario, such as negative shocks in domestic demand, supply shocks and volatility of international financial markets. In order to improve the result of the BCRP estimates, both in terms of the dynamism of economic activity and fiscal management, an expectation shock is urgently needed from the central government, so that investment, the true engine of the economy, recover its rhythm again. Otherwise, if the entrapment persists at all levels of government, the figures would adjust even more to the downside, and the harmed would be the most vulnerable population.

2. News analysis related to Trade

Peru:

- i. Peru and Bolivia inaugurate binational center** (*Gestion: 30/04/2018*) - The Presidents of Peru and Bolivia inaugurated the Binational Center of Attention in Border (Cebaf) of Desaguadero, that will speed up the entrance of 100,000 cargo trucks and 8,800 vehicles of tourism that move each year by the border between the two countries. The Cebaf will serve all the vehicles that move along the Peru-Bolivia border, under a process of integrated control. One of the benefits will be the regulation of traffic through the Carancas Bridge (border crossing). The infrastructure is located in Peruvian territory, two kilometers from the border crossing in Desaguadero (Puno).
- ii. ADEX: Peruvian exports could double to 2021** (*Gestion: 02/05/2018*) - With a growth rate of 24.4% in March and 15.5% in the first quarter of the year, Peruvian exports maintain the growth rate needed to achieve the objective of doubling by 2021, informed the president of the Exporters Association (ADEX), Juan Varillas Velásquez. ADEX reported that between January and March, shipments totaled US \$ 11,561 billion. The traditional amounted to US \$ 8.426 billion (variation of 14.7%) and the non-traditional US \$ 3.135 billion (17.6%).
- iii. LCC: Imports grow 11% over last year** (*Peru21: 03/05/2018*) - In the first quarter of the year, Peruvian imports recorded a growth of 11%, compared to the same period last year, adding US \$ 10,306 billion. This was reported by the Chamber of Commerce of Lima (CCL). "Consumer goods drove that growth. As of March this year, this type of goods registered a growth of 12.7% (US \$ 2,381 billion), specifically for purchases of automobiles, televisions and clothing," the business association announced. In March, international purchases registered an increase of 10.8% compared to March 2017, representing a total of US \$ 3,622 billion.
- iv. Peruvians bought 270,000 motorcycles in 2017** (*Gestion: 03/05/2018*) - The use of motorcycles in Peru has grown progressively, and the main reason is due to the accessible price of this vehicle and its characteristics that adapt easily to the driving needs of our capital. According to data from the Automotive Association of Peru (AAP), in 2017 more than 270,000 smaller vehicles were sold, having increased by 3.3% over the previous year. It should be noted that this figure exceeds the sales of the rest of new vehicles, which last year closed in more than 180,000 units, which makes a difference of 34.8% in favor of two- or three-wheeled vehicles.

Bolivia:

- v. Evo predicts 4.5% growth** (*Pagina Siete: 02/05/2018*) - In an act held in Oruro decreed an increase of 5.5% to the basic salary for workers and an increase to the national minimum wage of 3%. During this year, the international organizations IMF, World Bank and ECLAC expect that the economic growth of the country will not exceed 4% this year, despite this the government ensures a rate of 4.7% and thus guarantee the payment of the second bonus.

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